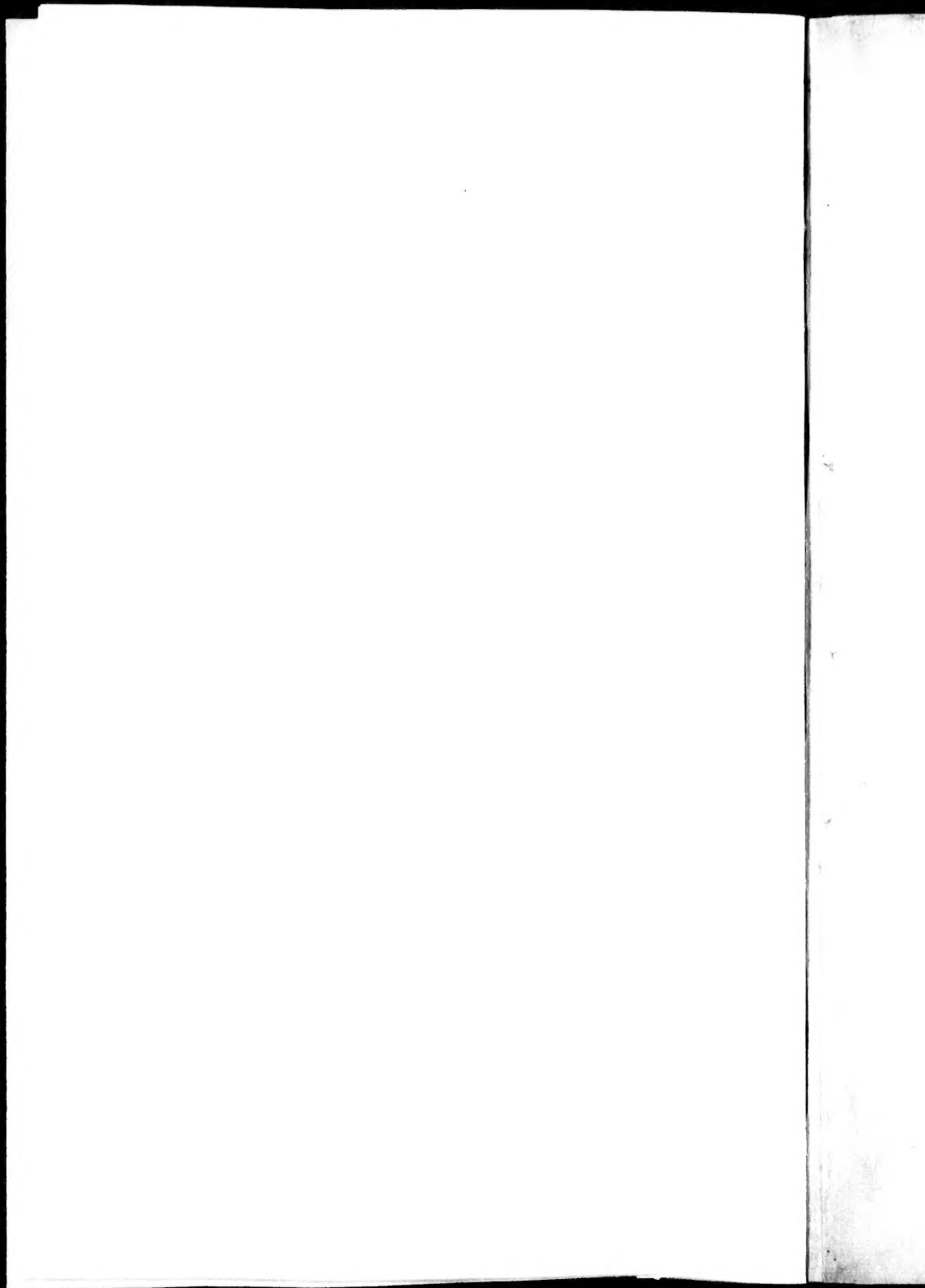




THOUGHTS

ON

THE CURRENCY.

LONDON:

JAMES RIDGWAY, PICCADILLY.

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THE CURRENCY.

It is understood that when Parliament shall again meet, one of the principal subjects to which its attention will be directed, will be that of the present state of the Currency. This subject has in the course of the last few years been discussed in many pamphlets of great ability, and much light has also been thrown upon it, by the very interesting and instructive evidence taken before the Committee of the House of Commons on Banks of Issue, which sat in the Session of 1840 and 1841. But, notwithstanding all that has been said and written upon the question, it appears to the writer of the following pages, that before measures of legislation, upon a matter of so much importance come under consideration, it still will not be superfluous to enquire first what is the precise object to be aimed at in any attempt to accomplish a reform in our Monetary system—and next, what are the means by which this object may best be attained. It may seem at first sight hardly worth while at-

tempting to explain that which is in itself so clear and simple as the object of a good currency ; but if we look carefully at the course which discussion upon this subject has taken, it will be found that much of the confusion and difficulty with which it is beset, have arisen from its having been too common to neglect the precaution of keeping steadily in view the real purpose which a circulating medium is meant to answer ; it is only by forming to ourselves a clear and definite idea of what that purpose is, and then judging of the various measures which are suggested by their fitness to effect it, that we can hope to arrive at a satisfactory practical conclusion. In entering upon this enquiry no preliminary attempt need be made to shew that our currency is not at present in a satisfactory state, or to determine in what proportion the responsibility for its past mismanagement properly attaches to different parties ; because as to the fact that some improvement in the existing arrangements is required, there seems to be a universal concurrence of opinion amongst all who have considered the subject, however widely they may differ as to the nature of the measures it would be expedient to adopt ; and because it is of much less importance to determine who may have been to blame for past errors than to establish a better system for the future, while the calm consideration of the best means of attaining this end would be little likely to be promoted by a discussion of which the tendency must neces-

sarily be to put some party or other upon the defensive.

The ultimate object then of all legislation with reference to the currency seems to be simply that of providing a medium by which the numberless exchanges which take place between the members of civilized communities may be effected with the greatest possible facility. Those who have been accustomed to look to measures affecting the currency as the means by which the nation may be indefinitely enriched, or irretrievably ruined, will doubtless regard as too narrow such a statement of the objects of legislation upon this subject; it would, however, be a mistake to suppose that object even thus limited not to be one of high importance. Without exchanges, Adam Smith has remarked that there could be no division of labour, and it is to the division of labour, as he has shewn, that we are mainly indebted for the superior productiveness of industry, and the consequently increased command of the comforts and luxuries of life, by which a civilized is distinguished from a barbarous society. But without some general medium of exchange in which the value of all commodities could be measured, nothing but the simplest barter could exist, and the greater the facility with which, by means of such a medium, exchanges can be effected, the farther can be carried that process which Adam Smith has termed the division of labour, and which has been since

more accurately described as the combination of labour and division of employments. A well regulated currency as the instrument by which exchanges, or in other words, by which commerce may be carried on, is therefore one of the most indispensable wants of a civilized society.

Of all the qualities which a currency must possess, in order to fit it for answering this purpose of carrying on exchanges, the most essential of all it may easily be perceived, is that its value should be certain and uniform. Before a man will consent to part with the produce of his industry in exchange for some article which he does not intend to use, except for the purpose of obtaining at a future time, by means of a second exchange, some other commodity he may require, he must be well assured of the value of that which he thus takes in order again to part with it. Just as the security of property is necessary to encourage industry, so confidence in the value of the medium in which payments are to be made is essential to the prosperity of commerce, because unless individuals who calculate upon having to pay or to receive certain sums of money, have the most perfect assurance that they will not be called upon to give or to accept what is in fact worth either more or less than they had expected, it is utterly impossible that they should engage freely in those transactions by which commerce becomes the instrument of so vast an increase of a nation's wealth.

A very remarkable illustration of this truth has been afforded, within the last few years, by the effects produced in the United States of America, by the derangement of their currency. In the year 1837 these States had suffered from no interruption of peace abroad, or of tranquillity at home, there had been no failure of the productiveness of their soil, or of the seasons, and no diminution of the spirit of enterprise and industry, by which their inhabitants are so eminently distinguished : it might therefore, perhaps, have been supposed that while the nation thus continued to possess all the elements of production, the sum of its wealth could not be diminished, though property might be made to change hands, and debtors might be benefitted at the expense of their creditors, by the general suspension of specie payments by the banks, and the great depreciation of their paper currency. The result has shown that such anticipations would have been altogether erroneous ; the derangement of the currency was the cause not merely of a transfer of property, but of a real diminution in the productive power of the nation, in consequence of the obstacles opposed to the most effective distribution of its labour and capital by the want of a safe and easy medium of exchange. All classes were sufferers by this state of things, labourers were thrown out of employment, and business was paralyzed, because, in the utter uncertainty as to what, at a short distance of time, might be the real value of the currency, in

which all engagements would have to be discharged, no man could venture to embark with confidence in commercial or industrious enterprises not promising an immediate return, and because the great and rapid fluctuations in the rates of exchange, not only with foreign countries, but between different states of the Union, rendered it hazardous in the extreme to carry on even the ordinary operations of trade, by which the daily and most pressing wants of society are supplied. Such have been the effects in America of a deranged currency, and unlike ordinary commercial embarrassments, these still continue, because the assistance to the operations of trade, afforded by an easy medium of exchange, has not yet been restored.*

* The New York Express gives the following account of the state of affairs in the United States, at the beginning of September, 1842.

“The veto and the various reports of the House, particularly that of Mr. Adams, is still uppermost in the minds of all. Our public affairs at Washington are approaching a crisis of an unprecedented character. Whether the public debts and the public credit are to be sustained, another week will determine. The revenue of the country, since the new tariff went into effect, has fallen off to a most alarming extent, leaving the country in a position that requires immediate action to save it from discredit and disgrace. All accounts seem to agree that the crops throughout the country are good, almost beyond parallel, and yet with abundance and plenty every thing is at a stand. This is the usual month when business revives. In former years the merchants in Baltimore and at the far West appeared here in great numbers to lay in their supplies. This year comparatively few have appeared. Pearl and other leading streets are as dead and dull as

Thus far there appears to be little room for difference of opinion ; men of the most opposite views will concur in admitting that the utility of a currency arises from its facilitating exchanges, and that for this purpose it must, in the first place, possess uniformity and certainty of value. Mr. Gilbart has stated, in language as strong as could have been used by Mr. Loyd or Mr. Norman, that he "thinks it necessary to keep the standard of value at as fixed and invariable a rate, as far as can be, as the yard measure or the bushel measure."* We may proceed one step further without entering upon disputable ground, and it may be asserted, without fear of contradiction, as a matter of fact and of experience, that no currency has hitherto existed which has been found to possess these qualifications of uniformity and certainty of value in so high a degree, as one consisting exclusively of the precious metals. Where such a currency has been in use, no instance can be shewn of the occurrence of those evils which, with a circulating medium of a different description, have been occasioned by fluctuation in its value. It is true

during the month of July. One great cause is, credits are done ; our merchants will not give credit as formerly ; indeed they cannot if they would, for in several states there is no currency,—viz. Florida, Alabama, Mississippi, Arkansas, Missouri, Illinois, Indiana, and Michigan. Seven states and one territory have no currency whatever, and will have none for a year to come."

* Report on Banks of Issue, 1841—Qu. 1380.

that even the precious metals themselves are subject to variations of value, but the experience of the world has shown that such variations take place, either by such slow degrees, or within such narrow limits that they may practically be disregarded, and that for all the purposes of commerce, a metallic currency may be considered as having an uniform and certain value.

But in an advanced stage of society both the number and the magnitude of commercial transactions increase so much, that a purely metallic currency is found not to afford a medium by which exchanges can be effected with sufficient ease and rapidity. The stock of coin which would be required, if it were the only circulating medium of a highly commercial and wealthy nation, could not be obtained and kept up, except at a very great expense, while an inconvenience still more serious than the expense would result from the difficulty and delay which would be experienced in transferring large sums in coin from hand to hand, and from place to place. Hence the utility of paper money, and in regulating a currency of which paper is to form a large proportion, the problem to be solved is, how to obtain in the highest degree the economy and convenience which are its recommendations, together with the still more indispensable requisites of uniformity and certainty of value which belong to a metallic currency.

One opinion as to the mode in which this pro-

blem is to be solved, that namely of which Mr. Loyd and Mr. Norman have been of late years the most distinguished advocates, may in substance be thus stated : The value of any description of currency, it is held, depends mainly upon the proportion which its total amount bears to the exchanges, of which it is to be the medium ; or, in other words, to the wants of the country where it is in use. A paper currency may be enhanced in value by limiting the amount in circulation, and on the other hand, by excessive issues, it may be more or less depreciated according to the degree of excess. This may be carried so far that the paper circulation may be rendered worthless, as has twice happened in France ;—it may be such as to occasion a depreciation to a minor, but still very considerable extent, as during our own Bank depreciation ;—or finally, there may be only that temporary and comparatively trifling amount of depreciation, which is produced by such a degree of excess in the issue of a paper circulation, as is consistent with the maintenance of its convertibility into the precious metals. A depreciation of the last kind can take place only within very narrow limits, both as to amount and duration, but may nevertheless be productive of very serious inconvenience. The value of the currency, and the proportion which exists between its total amount and the extent of the transactions for which it is wanted, are not (it is held) less mutually dependent upon each other,

when the precious metals only are employed, than when paper is made use of as a circulating medium, but as the precious metals possess an intrinsic value, ultimately determined by the cost of producing them, it is found that the amount of a metallic currency is not liable to be arbitrarily varied in the same manner as that of a paper currency, but is self-regulated by the wants of the country in which it circulates. It is well known that this self-regulation of the amount of a metallic currency is effected by the operation of the exchanges, and the tendency which always exists on the part of the holders of the precious metals, to transfer them from the countries where their value is lowest, to those in which it is highest. So powerful is this tendency, that when the wealth and trade of a country increase, so as to render necessary an increase of the circulation, a natural influx of bullion never fails to take place to the extent to which it is required,* while on the other hand an extension of a metallic circulation, when not wanted, cannot be artificially maintained. The enormous supplies of the precious metals formerly received by Spain, together with the severe laws in force against their

* A progressive improvement in the contrivances adopted to economize the use of money, generally counteracts to a certain extent, sometimes more than counteracts, the tendency of an increasing trade to create a necessity for an increasing circulation; it is to the wants of each country, under its actual mode of conducting business, that the amount of a metallic currency accommodates itself.

exportation, had scarcely any effect in keeping up the amount in circulation in that country. The uniformity of value of a metallic currency is believed to be in consequence of its amount being thus self-regulated, and hence it is inferred, that in order to ensure the same steadiness of value which belongs to a currency consisting exclusively of the precious metals, to one of which paper forms a large proportion, the latter ought to be so regulated that it may vary in amount according to the same laws, and by the operation of the same causes, as one of the former description—that is, according to the state of the exchanges.

Such appears to be the principle on which, in the opinion of the majority of those who have considered the subject, a good paper currency ought to be regulated; this opinion, however, is very far from being universally received; on the contrary, it has many eager opponents, who contend that the amount of the circulation ought not to be made in any degree dependent upon the state of the exchanges. The chief supporters of this doctrine, before the Committee on Banks of Issue, were Mr. Hobhouse and Mr. Gilbart; and though it is not the object of these pages to enter into a critical examination of their evidence, it may not be out of place to remark that whether the theory of the currency, which has been stated above be sound or not, it is at least simple, easily understood, and consistent with

itself, while the same thing certainly cannot be said of the views of its opponents. The evidence of Mr. Hobhouse, Mr. Gilbart, and Mr. Muntz, together with the writings of their supporters, leave us to search in vain for any clear and definite principle on which they think that measures regulating the currency should proceed, in order that it may constitute (as they admit it ought to do) a medium of exchange of certain and uniform value. It does not appear to be denied by Mr. Gilbart that if the currency is excessive in amount it will be depreciated in value; but while he denies the state of the exchanges to be a test of such excess, he furnishes us with no other as a substitute for the one he rejects; the utmost he can be brought to say is, that the rate of interest is one test, but not an exclusive one, of excess in the amount of the currency, refusing, however, to fix upon any particular rate of interest which he thinks may be so considered.*—Nor is it easy to reconcile with each other the opinions he has given in different parts of his evidence; he has stated that convertibility into gold is a necessary check against over issues, yet he declares that in the case of war, cash payments ought again to be suspended, and that if under such circumstances the Bank of England abstained from lending to the Government, and made its issues only according to the demands

* Evidence on Banks of Issue. 1841—Questions 994 and 1086.

of commerce, they could not be excessive.* In like manner, though he seems to recognize gold as the standard of value, he maintains that there may be an over-issue of paper in exchange for gold;† not explaining how this could happen, and how it could be the interest of the holders of gold, which cannot be supposed to be reduced in value, to exchange it for paper issued to excess, and therefore depreciated.

It is surely not too much to say that opinions so much wanting in precision and clearness, could not safely be followed in legislating upon any subject, nor is it probable that they will have much influence in deciding upon the practical measures to be adopted with reference to the currency; judging of the tendency of public opinion, from the tone both of the proceedings of the Committee on Banks of Issue, and of the pamphlets which have obtained most attention, it is less to be apprehended that changes will be made in the direction which Mr. Gilbert, and those who concur with him in opinion, would recommend, than that Parliament virtually recognizing the opposite views as sound, and practically acting upon them to a certain extent, will yet stop short of explicitly adopting, and consistently carrying into effect the simple principle, that a currency, of which paper constitutes a large proportion, ought to be so regulated that its amount

* Questions 943, 1064, 1149, 1152, 1156.

† Question 951.

may vary precisely in the same manner, and in the same degree, as if it consisted only of the precious metals. As the witnesses, who have given the strongest evidence in favour of this principle before the Committee on Banks of Issue have hesitated to recommend its decided adoption in practice, and have suggested various measures, more in the nature of palliatives than of remedies for the evils now complained of, it seems not improbable that the Government and Parliament may be guided by the same feeling, and that the course to be followed by them will rather be determined by the desire to preserve as much of our present system as may be possible without extreme inconvenience, than by a well considered judgment of what would be best for the real and permanent interests of the country. It will be the object of the following pages to shew that this would be a most mistaken line of conduct to pursue, and that if the principle laid down by the highest authorities be recognized as sound, an entire change of system, carrying it into full effect, is what ought to be attempted.

It has already been shewn, that to answer this description, a measure must have for its object to assimilate the circulation of the country to one exclusively metallic, as nearly as is possible, without giving up the convenience and economy of using paper money ; hence, as the issue of gold and silver money is retained by the State in its own hands, instead of being entrusted to private indi-

viduals and trading corporations, the same rule ought to be adopted as to the issue of paper, and this issue should be kept entirely distinct from the business of dealing in money or banking, with which it has no necessary or legitimate connexion. The first provision, therefore, of an effectual reform of the currency would be to put an end to the anomaly of allowing so important a function as that of issuing money to be exercised by any other hands than those of some responsible public authority; the circulation ought to be a national one, and should be managed by Commissioners appointed for the purpose.

The other essential requisite of a good currency is, that its amount should be rendered strictly dependent upon the state of the exchanges; the mode of rendering it so, which has been repeatedly recommended, and which appears calculated to be perfectly effectual, is to have the national paper represented partly by a fixed amount of securities, and the remainder by bullion, the duty of the Commissioners being to extend or contract the issues only by giving out or receiving back their notes in exchange for gold. To this it would be necessary to add that the securities held by the Commissioners should not be of a kind requiring to be frequently changed, the managers of a national currency should be no less carefully deprived by law of any power of trafficking in securities, and of exchanging one description of them for another at

their discretion, than of the power of regulating according to their judgment the amount of the circulation. By this arrangement a national currency, consisting in part of paper, would be assimilated as closely as possible to one exclusively metallic, since the notes issued under these regulations would be, in the strictest sense of the word, the mere representatives of bullion ; they would not only be convertible into gold, but their whole amount in circulation would be regulated by the very same laws, and vary precisely in the same manner as that of a purely metallic circulation. An increase of the notes issued, and a consequent expansion of the circulation, could take place only when the state of the exchanges made it the interest of the dealers in money to carry bullion to the Commissioners, demanding paper in return, just as with a metallic currency, they would in a similar case carry gold to the Mint to be converted into coin ; and in like manner the circulation would be contracted only when the opposite state of the exchanges led to a demand for bullion from the Commissioners, for the purpose of exportation. Thus, the maintenance of the circulation at its proper level, and therefore of an unvarying standard of value, would not be left to depend upon the exercise of a sound discretion by the Bank of England, by the various other banking establishments of the country, or by the Government ; but we should trust for it to the operation of the law which regulates the distribu-

tion of the precious metals amongst the different countries of the world, and which experience has proved to work with unfailing regularity and certainty.

It can scarcely be disputed, that by placing the circulation of the country upon this footing, we should merely be following out to their legitimate conclusion, and practically applying the principles which have been contended for by Mr. Loyd and Mr. Norman ; it may, however, be thought, that so extensive a change in a system which has been long established could not be easily accomplished, and that it would be better to aim at only improving the existing arrangements with reference to the currency, preserving their general outline, than to endeavour to sweep them away with the view of substituting others of an entirely novel character. This is a view of the subject which at first sight is likely to be favourably received ; but before it is adopted, it ought to be considered that any partial reform of our Monetary system which may be proposed, cannot be expected to escape opposition because its scope is limited to the changes most urgently required : on the contrary, any such scheme will be sure to meet with a determined resistance, for which its very incompleteness would afford plausible grounds. Suppose, for instance, the suggestions of Mr. Norman* should be adopted ; the Bank of England would in this case be di-

* Reports on Banks of Issue, 1840.—Q. 2601.

vided into two departments, and its paper would be only issued in exchange for bullion; no new country Bank of Issue would be allowed to be established, and even those already existing would lose the privilege they possess at the end of a few years; inducements being in the mean time held out to them for its earlier abandonment, while those that persevered in issuing their own notes would be subjected to severe regulations, requiring them to give security for the amount of their issues, and to publish returns of their circulation and reserves.

It is obvious, upon an attentive consideration of Mr. Norman's evidence, that even in his own opinion the adoption of this plan would afford an exceedingly imperfect remedy for the evils now complained of, and that its practical working would be impeded by very great difficulties :—The issues of the country banks in England, still more those of the Scotch and Irish banks, would be under no effective controul, nor would it be easy for these establishments (however much they might wish it) to make the result of all their separate and independent operations correspond accurately with the measures of the Bank of England. The latter in its turn would find extreme difficulty in maintaining the division of departments and the strict rule of issuing paper only in exchange for gold, unless the whole paper circulation of the kingdom were managed upon the same principle.

But without dwelling upon these very palpable faults in the scheme, as it appears to have been suggested under the impression that it might be carried with greater facility than a larger measure, what most deserves our notice is the fact that it is hardly possible to conceive a proposal calculated to raise up against its adoption a greater variety of interests and opinions, and open to more plausible objections. A measure of this kind would unite against it all the existing banks of issue in the three divisions of the kingdom, all the parties who are eagerly seeking to be admitted to a share of the great profits they conceive to be obtained by the issue of paper in the metropolis, all the advocates of what is called a liberal management of the currency, and all those who, entertaining the opinions put forward in the Report of the Chamber of Commerce of Manchester, regard the Bank of England not merely with distrust but with hostility. Nor would these powerful opponents of such a measure be at a loss for arguments against it; they would enlarge upon the odious monopoly which it would create, or rather confirm and extend, and upon the unjust and vexatious interference with private affairs which it would establish, while they would have in their mouths the popular watchwords of free trade and the protection of the private trader from the overbearing domination of a great Corporation. It requires but a moderate acquaintance with the opinions and prejudices prevalent

both in the House of Commons and in the country, to perceive that the success of a measure so opposed would be neither easy nor certain.

These difficulties which would have to be encountered by the plan just adverted to would stand equally in the way of any other proposing to effect only a partial reform in our Monetary system, since all such plans involve some increase of the power of the Bank of England over the circulation. The case would be different if the measure brought forward, instead of being avowedly imperfect, were one as complete as possible ; a proposal to establish a national currency, upon whatever other grounds it might be objected to, would at least avoid provoking the opposition of those who regard the Bank of England with feelings of commercial hostility and jealousy, or who think (not without reason) that it ought not to be left to a trading corporation, of which the first object must naturally be its own profit, to regulate the currency of a great empire. Nor would such a proposal afford to its adversaries any ground for declamation on such popular topics, as the extension of an odious monopoly, and the injustice of interfering with the management of private affairs ; whatever might be thought of the policy, none could deny the justice of the resumption, by the supreme authority of the State, of the exercise of its ancient right of retaining exclusively in its own hands the power of creating money for the use of the nation.

It may, however, very probably be objected, that however desirable it might be under other circumstances, the establishment of a national currency could not successfully be now attempted in this country, from the shock which it would give to vested interests, and to the deep-rooted opinion or prejudice which the experience of other countries has created against a government paper money. This objection would be conclusive, were it proposed to effect a complete change in our monetary system without regard to existing interests; or were there any real similarity between such a national currency as has been suggested, and the various government paper currencies which have existed in other countries. With respect to vested interests, it appears that the existing banks of issue have in general established the paper circulation they possess by the employment of capital, skill, and labour; it would be unjust, therefore, to deprive them without compensation of the advantage they enjoy. Nor would it be less impolitic than unjust to attempt to do so, since any direct pecuniary advantage to the State by the establishment of a national paper currency is an object of such very trifling importance, compared with that of giving to the country the benefit of a convenient and certain measure of value, that it would be most unwise to increase the difficulty of attaining the latter for the sake of securing the former. But happily there would not be the slightest difficulty

in providing against the infliction of any injury to existing interests by the proposed change; the simple and obvious means of doing so would be to follow the example already set by the Bank of England, and to effect the substitution of the national paper for that actually in circulation, by advancing at a low rate of interest to the various establishments now in existence, sums equal to their average issues for the one or two previous years.* It appears by the evidence of Mr. Norman, that the Bank of England, when it has made arrangements for substituting its own paper for that of country banks, has made advances to the latter at the rate of 3 per cent.; but as every effort should be made to conciliate the country banks to the proposed measure, and as some service in the way of agency would be required from them, it would be better that these advances made by the public should bear an interest not higher than $2\frac{1}{2}$ per cent. With the Bank of England (which might still perform what is properly speaking the banking business of the country) a separate arrange-

* These advances should be made for such a period as might be considered sufficient, to compensate the Banks for the loss of the advantage they now enjoy from the issue of their own notes; perhaps with this view the repayment might be made to commence at the end of ten years, and to be completed in ten more, by the same number of equal annual instalments. It might, however, deserve consideration whether the advances might not be permanent, in return for the assistance local banks might render in the management of a national currency.

ment would have to be made : with a disposition on both sides to act fairly, there could be little difficulty in agreeing upon its terms ; but it is not necessary at this moment to discuss what they ought to be.

In this manner all real injury to existing banks of issue might be avoided ; and, looking to the evidence which has been given by several gentlemen connected with these establishments before the Committee of the House of Commons, there seems no reason for apprehending that if they were thus fairly dealt with, they might not be brought very generally to acquiesce in a change which, by establishing a certain and uniform measure of value, would promote their true interest even more perhaps than that of all other classes of the community.

A more formidable obstacle to the proposed creation of a national currency would arise from the opinion which must be admitted to be very generally entertained, that the issue of paper money by the State is attended with great danger, and liable to great abuse. This opinion is most just as regards any description of paper money, which is placed upon such a footing as to enable the Executive Government to exercise any sort of discretion in regulating the amount of the issues to be made. Whenever the smallest discretionary power of this sort exists, the temptation to abuse it in seasons of financial distress is so great that no Government can be expected always to resist it ; but the same

objection does not apply to a national paper circulation, so regulated by positive law that its amount should be determined in the manner already described by the operation of the exchanges, the Executive Government being deprived of all power of interfering with this operation under any circumstances whatever. If the controul of a national paper circulation were placed in the hands of commissioners responsible to Parliament, and strictly bound by law to adhere in all cases to the simple rule of only issuing notes in exchange for gold, it is difficult to conceive how those evils, the danger of which is commonly supposed to be inseparable from the use of any kind of government paper, could possibly occur. Such a circulation could give rise to no abuse : above all, it would be safe against excessive issues (the rock upon which the credit of government paper has generally been wrecked,) unless Parliament itself should be tempted openly to depart from the fundamental principle of the whole system by sanctioning an improper issue of paper. It is to be hoped that the bitter experience of former errors, and the great advance which has of late been made by the public in knowledge of these matters, together with the fact that the very first step out of the right road must be an act of the Legislature of which the effect would be clear, would afford a sufficient security against such a contingency ; but if not, and if we must suppose that at some future time there

may be a Parliament capable of adopting the short-sighted policy of seeking relief from even the most pressing financial difficulties by what would be an undisguised alteration of the standard of value, the same Parliament, though there should be no national paper currency, would equally have the power (and would be equally likely to use it) of resorting in some other way to the same fatal expedient; it might, for instance, quite as easily adopt the frequent resource of barbarous times and barbarous countries, by reducing the real value of the coin. Our only security against the adoption of measures of this sort, whether we have a paper currency or not, is in the knowledge of their true nature which is now generally diffused. The argument may be pushed still farther: those who object to any plan for the issue of paper on behalf of the State, because they dread our being again afflicted with an inconvertible and depreciated paper circulation, would do well to remember how much greater is the danger under our present system than it would be under that which has been suggested. At present such is the division of responsibility and of power over the circulation, between the Legislature, the Executive Government, and the Bank of England, that it is not only possible but easy for the Government and the Bank of England, if they were to look only to what is for their immediate convenience, to adopt measures, the blame of which it would be difficult fairly to apportion be-

tween them, and of which the effect would be to bring about a state of things in which a cessation of cash payments would be inevitable. Such measures too might have been in part sanctioned by the Legislature, without their necessary consequences ever being perceived until it was too late to correct the error. In point of fact, this is precisely what actually occurred in 1797. It seems clear that neither Mr. Pitt nor the Bank deliberately contemplated beforehand having recourse to a suspension of cash payments, still less did Parliament anticipate such a result from the financial measures to which it gave its assent; yet by a course of proceedings, for which all these parties were more or less to blame, affairs were insensibly brought into a situation in which it may be doubted whether the unfortunate step of authorizing the Bank to discontinue paying its notes in specie, could possibly have been avoided by any means which could have been adopted after the extent of the danger became known. There is nothing in our legislation since that time to prevent the recurrence of a similar event from similar causes. Instead, therefore, of its being true that a national paper currency regulated as above described would be objectionable, upon the ground that it might lead to a departure from the standard of value, it is precisely as being the best safeguard against this change that its adoption would be most important.

But the proposed measure will be met by another class of objections, resting not merely on different, but precisely opposite grounds from those just considered. It will be contended that the regulations suggested would be far too strict, and would entirely deprive the country of what are the main advantages of paper money and of banking. It is said, that at present the duty is imposed upon the Bank, and that it is also invested with the power, of supporting trade and credit in periods of difficulty, and of assisting the Government when in temporary want of money, in the manner so long practised by advances on deficiency bills. The greatest public inconvenience it is asserted must result from taking away the means by which these objects are accomplished, and from exposing the country to a sudden contraction of the circulation whenever an extraordinary and temporary demand for gold happened to arise from such causes as an unusual foreign expenditure by the Government, or a large importation of corn, owing to a bad harvest. By those who best understand the subject, no weight will be attached to these objections; but as they are those which will have most influence with no inconsiderable proportion of the public, it is necessary to offer a few observations upon them.

It will be perceived at once that the arguments now referred to are entirely founded upon the mistaken notion that a paper circulation ought to be

something more than merely a cheap and convenient instrument of exchange, and upon the prevalent error so well exposed by Mr. Loyd, of supposing that the issue of paper money forms any necessary, or even proper part of the business of those whose trade is dealing in money or banking, correctly so called. It is perfectly true that large capitalists in general, and the Bank of England in particular, frequently render great service to the public by the pecuniary assistance it is in their power to afford in seasons of temporary difficulty, both to private merchants and to the Government of the country ; but in order to render this assistance really useful, the means of giving it ought to be derived from the capital and credit of those by whom it is granted, not from an increased issue of paper. A moment's consideration must shew that an increased issue of paper can add nothing whatever to the real wealth of the country ; this must remain precisely what it was before, when therefore the Bank issues notes for the purpose of making advances to the Government or to private merchants, it necessarily follows that she merely transfers for a time, to the party receiving the advance, a portion of the national means which must previously have been in some other hands. Now the issues made by the Bank on such an occasion may be met by a corresponding contraction of the circulation in some other direction, so as to prevent the value of the currency from being affected ; if

so, the transaction is a perfectly legitimate one ; but it is clear that the assistance is really afforded by the use of the capital and credit of the Bank, and by a change in the employment of her means. Money is withdrawn from some quarter where the demand for it is less pressing, and applied where it is most wanted, to effect such changes in the distribution of capital, being the proper office of bankers and of dealers in money ; in this case the power of the Bank of England to render the service expected from her is derived, not from her privilege of issuing her own notes, but from the magnitude of her capital, and the credit she enjoys on account of her well known wealth.

But on the other hand, the issues made by the Bank for the purpose of affording the assistance which is required from her, may not be met by any corresponding reduction in the circulation in other directions, and the whole amount of the circulation of the country must therefore be increased beyond what it would otherwise have been. Whence in this case are the funds derived, which the Bank, by her advances, places at the disposal of those who apply to her for assistance ? As before, there is no new value created—no addition is made to the national wealth, and by the supposition the Bank does not withdraw any part of the funds at her command from their previous uses, there remains but one source from which the means of making the advances in question can be obtained ; when

the additional issue increases the whole nominal amount of bank paper in circulation, it will leave its real total value the same, and must therefore proportionably reduce the value of any given part of it; thus the command over a certain portion of the national wealth will be withdrawn from all previous holders of money, the sum of what they lose being that which is transferred to the receivers of the loan; that is to say, the Bank makes the loan, not from her own resources, but from the resources of others, which she takes from them indirectly, and without their consent. But this is not the only effect of the operation; the same diminution in the value of money, which imposes a tax on all the holders of money, to supply the means of making a loan to the parties requiring it, will likewise tax creditors generally for the benefit of their debtors, and in seasons of great commercial distress, this is probably the effect of the operation which is really most desired, and that which is in fact meant by the plausible phrase of supporting credit. Now it surely can hardly require an argument to prove that such a power of relieving debtors, and of drawing upon the whole class of monied men without their knowledge or consent, for the purpose of giving pecuniary assistance to particular individuals, or to the Government, is one which can, under no circumstances, be safely exercised, and which ought not to be intrusted to any authority in the state, much less to a trading corporation.

But, perhaps, it may be denied that an extension of her issues by the Bank, for the purpose of increasing her loans, either to private individuals or to the public, would be attended with the consequences just described, and it may be said that some case in which they have been practically experienced ought to be produced. To such an argument it may be replied, that the question is not whether the Bank has practically acted in the manner objected to. If she has not, there is an end of the allegation that it is necessary to maintain a power of temporarily increasing the issues of paper, for the purpose of alleviating the pressure of commercial or financial difficulties. If, on the other hand, she has used such a power, what proof beyond the mere statement of the fact can be given, that her doing so has had the effect asserted? It is self-evident that a depreciation of the currency must virtually impose a tax upon all who are holders of money at the time it takes place, and upon all creditors for the benefit of their debtors, and whenever the amount of the circulation is artificially increased, this of necessity implies that it is depreciated. Will it be said that this last assertion is inaccurate, and that there can be no depreciation of a paper circulation while its convertibility is maintained? If so, to what purpose has an enquiry been instituted into the best mode of improving our monetary system? For many years the convertibility of our paper circulation has been successfully

maintained, yet the variations to which its value has during this period been exposed, have been the subject of universal complaint, and have in fact led to the important investigation which, for two years, occupied the Committee on Banks of Issue. There is no doubt a limit (and it is one which is soon attained), beyond which the depreciation of a paper currency cannot be carried, either in extent or in duration, if its convertibility is to be maintained, but within this limit experience seems clearly to prove that depreciation may take place, and unfortunately the evils produced by even a very small and temporary alteration in the value of money are found to be of a most serious kind. But if it is admitted that even a convertible paper circulation is not entirely exempt from variations of value, as no other test has been proposed by which this can be ascertained, except that afforded by the state of the exchanges, it follows that whether we say that the exchanges shew the circulation to be redundant or to be depreciated is immaterial, we merely use different words to describe the same fact and to express the same idea.

Again it is urged, that if the efflux of gold from this country were always to be met by a contraction of the circulation, great and needless difficulties would be inflicted upon the community whenever an extraordinary demand for gold for exportation should arise from such causes, as an unusual importation of corn, or a necessity for carrying the

expenditure of the Government abroad, much beyond its ordinary limits. In cases of this sort, it is said, that there would be no diminution in the demand for money at home, and that it would therefore be unreasonable to expose all classes of society to the pressure, which they all feel in some way or other, from a material contraction of the circulation. It is undoubtedly true, that much inconvenience, and even distress, must always attend such a contraction of the circulation; but to argue from this, that the contraction ought not to take place is to mistake the symptom of the evil for its cause. Whenever the country is called upon to provide the means of making heavy payments abroad, beyond those which can be effected by the ordinary exportation of the produce of its own industry, some sacrifice must be submitted to, and the contraction of the circulation which, under such circumstances, naturally takes place, instead of being itself the cause of the pressure which is experienced, is the only means by which still greater evils can be averted.

This will be best shewn by observing what has actually occurred. After some years of productive harvests, in which little foreign corn had been required, the partial failure of our own crops compelled us in about two years, beginning in 1838, to import corn to the value, as has been calculated, of seven or eight millions of money, and we had to find the means of paying this large sum to the

countries whence our supplies had been drawn. This heavy demand being one not arising in the ordinary course of trade, could only be met in part by the exportation of goods, so that the balance had (in the first instance at least) necessarily to be paid in bullion. Now if a contraction of the circulation had taken place at the same time, and to the same extent that bullion was exported, prices would have been to a certain degree affected, and in almost every branch of our industry the difficulties usually experienced when there is a tendency of prices to fall would have been felt. No doubt such difficulties are always to be regretted, but the general lowering of prices by which they had been occasioned, would have had the effect of promoting the exportation of British commodities, by which it would have facilitated the payment of the debt due to foreign countries, and have checked, so soon as this was accomplished, the exportation of bullion, and the contraction of the circulation. The result would have been, that the industry of the country would have been taxed to purchase the supply of food, which the deficiency of our own harvests, and our vicious legislation with respect to the corn trade, had made it impossible for us to obtain without this sacrifice. In point of fact, however, the contraction of the circulation did not commence at the same time with the drain of bullion, and what was the consequence? Why, that this drain proceeded to a most alarming ex-

tent, and that at length, in order to stop it, and to maintain the convertibility of the notes of the Bank of England, it became necessary to adopt very stringent measures for the contraction of the circulation; the result being, that far more severe and prolonged commercial distress was produced than could have been occasioned by an earlier and a more gradual contraction. In 1797 the course of events was very similar, except as to their original cause and their ultimate result. At that period there was a heavy balance of payments to be made by this country to foreign nations, not in consequence of an unusual importation of corn, but owing to the large subsidies it had been thought necessary to give to the Powers of Europe which had taken part with us in the war against France. This balance of payments to be made, produced, as in 1839, a drain of bullion, and as in the latter year it was not met from the first by a corresponding contraction of the circulation, the consequence was, that the drain continued, and as neither the Minister nor Parliament had resolution enough to impose upon the country the sacrifices by which alone, under such circumstances, the convertibility of the Bank Paper could have been maintained, recourse was had to the fatal expedient of legalizing the suspension of cash payments.

The experience of what happened in these two instances serves remarkably to confirm the conclusion to which we should equally have been led

by general reasoning, namely, that the only effect which can be produced by an attempt to maintain the circulation of this country undiminished when a drain of bullion shews it to be redundant as compared to the rest of the world, will be that of postponing for a time that contraction which must ultimately take place if cash payments are to be maintained, and which will be the more violent, and the more injurious to commerce the longer it is delayed.

To resume, in a few words, the substance of the preceding observations, we conclude that it is of the greatest importance, under all circumstances and contingencies, to maintain the standard of value unaltered; that the value of the currency is determined by the proportion which its amount bears to the wants of the country; and that therefore a discretionary power of regulating the amount, and consequently the value of the currency, ought no more to be entrusted to any authority whatever, than a similar power of varying the standard measures by which goods are bought and sold: also, that where an exclusively metallic currency is employed, its amount is self-regulated by the operation of the exchanges, and its value thus rendered what may be practically considered as uniform; and that therefore a paper circulation ought in this respect to be assimilated to one consisting of the precious metals. Lastly, that as the best mode of reforming our monetary system in conformity with these principles, all private issues

of paper, payable on demand, should be put an end to, making way for a paper circulation issued under the authority of the State, the amount of which should be determined, not by the judgment of any individuals, however able, or however honest, but by the operation of the exchanges. The State would thus again take upon itself its ancient duty of supplying the country with the money by which all transactions are ultimately adjusted, and doing so it would leave the trade of banking, or dealing in the money thus supplied, perfectly free and unfettered, giving no monopoly or superior advantage to the Bank of England, or any similar body, but allowing full scope for the exercise of private enterprise and judgment.

In this manner complete security would be obtained for the maintenance of a standard of value as nearly uniform as the condition of human society admits, without giving up those advantages which have been so commonly, but with so little reason, supposed to result from the privilege enjoyed by banks of issuing their own notes. These advantages have in reality been obtained from the use of the powerful instrument of credit, which would be rendered in no degree less available by the adoption of a State Currency; on the contrary, the legitimate use of credit would be facilitated by the existence of a medium of unvarying value, to which all transactions would refer, and by the security which would thus be afforded. It would still be the interest of the

capitalists who have adopted the business of banking to economize, as far as possible, the use of money, and carry on the trade of lending money to those by whom such assistance is required, and receiving it from others not having an immediate use for it. All the ingenious and useful mechanism of the modern system of banking would continue to work precisely as it now does, only with greater ease and safety ; and it would, as at present, perform the important task of distributing the capital of the country into the channels in which it can be used with most effect. The evidence given upon this point by Mr. Wright and Mr. Paul Moon James, in their examination before the Committee of 1841, is exceedingly important, as they have shewn, speaking from actual experience, that all the advantages of a good system of banking may be obtained by means of banks not issuing their own notes. The same conclusion, though contrary to his own opinion, may be drawn from the facts stated by Mr. Kennedy, in his very clear and instructive account of the system of Scotch banking. That system, though not free from faults, is, upon the whole, an admirable one, and has been productive of the greatest benefit to Scotland, but this benefit seems to have arisen, not from the power which the banks possess of issuing their own notes, but from the skilful arrangements by which the employment of money has been economized to the utmost, and by which credit has been rendered

more extensively useful, and in a better manner than in this country. This is the conclusion which appears to be plainly deducible, from the fact stated by Mr. Kennedy, that notwithstanding an immense increase in the industry, trade, and banking capital of Scotland since the year 1826, the amount of local notes in circulation has diminished about one-fourth, a striking proof of the extent to which the economy of money has been carried ; it is certainly difficult to understand why this economy and the judicious use of credit, should be checked by the establishment of a national currency of unvarying value.

Whatever doubts may be entertained as to the feasibility of at once effecting so extensive a change as that recommended in the preceding pages, it can hardly be denied, that by adopting it, we should merely carry out to their legitimate and natural consequences, the principles which have been very ably stated and enforced by those writers and those of the witnesses examined by the Bank Committee, whose opinions will carry with them the greatest weight ; but there is a further suggestion, which seems to deserve consideration, though there is little recent authority to be quoted in its support, and though it seemingly at least runs counter to the opinions which have of late years been most in credit. The suggestion alluded to is, that the above plan for the establishment of a national currency would be in itself greatly improved, and at

the same time some important facilities towards effecting the change would be afforded, by issuing small notes, and by making the national paper payable, not in coin, but in bullion, in the manner formerly recommended by Mr. Ricardo.

It is obvious, that if this suggestion were adopted, the employment of a gold currency must be altogether discontinued, and notwithstanding the strong prejudice which exists against such a measure, there seem to be some very powerful reasons for adopting it. In the first place, it is to be observed, that the pecuniary saving which would thus be effected, is one of no small importance. The cost to the country of maintaining the gold coinage is undoubtedly heavy, though it may not be possible to obtain any data by which its amount can be accurately ascertained. According to Mr. M'Culloch,* the gold actually in circulation, exclusive of that in the coffers of the Bank of England, and her branches, may be estimated at about 30 millions, the annual cost of which he calculates to be $5\frac{1}{4}$ per cent. or 1,625,000*l.*; nor does this seem by any means an extravagant calculation, considering that in addition to the interest of the capital invested, it includes the wear and tear and occasional loss of the coins, together with the whole expense of the manufacture, which in the absence of any seignorage, cannot fail to be considerable.†

* Statistical account of the British Empire, Vol. ii. p. 26.

† The extensive recoinage of gold, which has lately been neces-

All these charges together must directly or indirectly throw upon the country a burthen, which there appears to be every reason for believing not to have been over-estimated by Mr. McCulloch. A paper circulation is, no doubt, also attended with some expense; but if we estimate the small notes, destined to replace the sovereigns now in use, to cost half as much as the latter, there can be little question that the saving by the use of the former would be considerably understated; even thus calculated, however, the annual saving would amount to upwards of 800,000*l.*; not that the revenue would benefit to this extent, but the saving to the country would be not the less real, because a large part of the charge on which it would be effected now falls on individuals.

Another advantage which would result from the issue of small notes would be that of putting an end to the great anomaly of allowing such notes to circulate in Scotland and in Ireland, while they are prohibited by law in England. Nothing surely can be more absurd than to sanction the issue of

sary, must have been attended with a very considerable expense, to which must be added the loss thrown upon the holders of light sovereigns, by the proclamation which appeared a few months ago; the inconvenience arising from the general lightness of the coin, and from the necessity of weighing it, was even a greater evil than the loss; its periodical recurrence is, however, probably inevitable, under the present system of maintaining a large amount of gold coin in circulation.

notes of this description on one side of the Tweed, and to make it penal to offer them in payment on the other ; to say that a farmer from the English side of the border, in selling the produce of his land, at Kelso or at Coldstream, may accept payment in notes, which he will incur a penalty by even offering in discharge of a debt to his neighbour on his return home. Of course such a law cannot by possibility be enforced ; and in point of fact nothing can be more notorious than its daily and hourly violation. This is a state of things to which it is undoubtedly desirable to put an end, since the example of a systematic violation of the law, even in matters of minor importance, is always injurious ; but as no Chancellor of the Exchequer will probably provoke another Malagrowther, by attempting to deprive the Scotch of the advantage they conceive to be derived from the use of small notes, the anomaly can only be corrected by issuing notes of this description in England also.

But the pecuniary saving to the country, and the removal of a great anomaly in the law, by applying one uniform system to the three divisions of the United Kingdom, though they are advantages by no means unworthy of our consideration, are yet of minor importance, when compared with the increased security which would be given to a national paper currency by making it convertible, not into coin, but into bullion, and by the issue of small notes with that view. It is obvious that it is

not possible, without sacrificing the greater part of the advantages derived from the use of a paper currency, so to regulate it, as to provide the means of meeting a demand for the payment in specie at the same time, of any very large proportion of the notes issued. The whole system rests upon the assumption that no such demand will be made ; and in all ordinary cases this assumption is perfectly safe, but in seasons of political alarm it is much otherwise. In times of public danger and disturbance, fear may produce a general desire for the conversion of paper money into coin, and a run may thus be produced, which no previous good management could be sufficient to guard against or to afford the means of meeting. Mr. Norman and Mr. Loyd have both distinctly admitted, in the evidence they have given, that even if the paper circulation were regulated strictly upon the principles they have laid down, no security whatever would be afforded against the effects to be apprehended from political alarm ; depreciation arising from over issue or mismanagement, might be effectually guarded against, but the other danger would still remain. Mr. Norman indeed says that it is not necessary to provide against such a contingency ; but surely this is far from a satisfactory mode of passing by a question of very great importance. It is obvious, that a run upon the Bank, and the discredit of the paper circulation, might, in a season of political difficulty, be the source of

the very greatest peril to the country, and might almost paralyze its powers of exertion, when most urgently called for. This is no mere speculative danger, but one of which the reality has been demonstrated by experience. So lately as the year 1832, it is well known that a demand for gold arose, not in consequence of any mismanagement on the part of the Bank, or of the too great amount of paper in circulation, but entirely owing to the alarm created by the state of public affairs ; the run thus created went to such an extent as to give rise to very serious apprehensions, and was stopped only by the cessation of the political alarm by which it had been created. Now, in this case, if the alarm had continued only a day or two more, the result might have been most calamitous. In proportion as the reserve of gold in the Bank became smaller, the desire of the holders of its notes to convert them into coin, would have become stronger, and many persons, not in the first instance affected by the prevailing alarm, the moment it was believed that the Bank might not be able to resist the run upon it, would have hastened to anticipate the catastrophe which they would thus have rendered inevitable.

But considering the agitated and excited state of the country, at that time, it is indeed difficult to say how it might have got through the crisis, if to all the other causes of confusion and difficulty then existing, there had been added the stoppage of the

Bank, and the sudden check which this must have given to trade, and to the employment of the multitudes whose daily bread depends upon their daily labour. This danger, it may be urged, has been exaggerated, since it supposes a total blindness as to their own real interest, on the part of the holders of Bank-notes; no doubt it does so, but as in a shipwreck, the only chance of escape for those on board is often thrown away, by a confused and hurried rush to the boats, when, with a little patience and presence of mind, all might have been saved, so the same sort of panic, the same blind desire of each man to save himself without regard to his neighbours, renders it a matter of the very greatest difficulty to stop a run upon a bank, when it has once gone so far as to create a belief that it will eventually exhaust the means of meeting it. Hence, whatever may be the system of paper circulation, which is to be adopted, the danger of a run, caused by political alarm, is one which ought to be considered, and so far as human foresight will allow, provided against; if we cannot guard against it completely, we should endeavour at least to diminish the risk as far as may be practicable.

Now the disuse of a gold circulation, and making the paper currency convertible not into coin, but into bullion, would, for the following reasons, greatly tend to effect this object:—

First.—Ingots of gold could not be used as money in the ordinary transactions of life, it would

require, therefore, a much greater degree of apprehension to lead men to turn their money into bullion, than that which makes them endeavour to exchange bank-notes for sovereigns, which are equally available for ordinary purposes, with the advantage of possessing intrinsic value.

Secondly.—The same circumstance of bullion not being applicable to the ordinary purposes of money, is farther of importance, since it follows, that every demand for bullion, in exchange for paper, would contract the circulation to the extent of the notes so paid in, and this could not proceed far without raising the value of the paper circulation above that of gold, and thus powerfully discouraging its further presentation for payment. When bank-notes are paid in sovereigns, the same effect is not produced, the coin is substituted for paper, but no contraction of the circulation necessarily follows ; if the demand for gold has arisen from the state of the exchanges, the circulation will be contracted, because the sovereigns will be exported, but when the demand has been created only by political alarm, the sovereigns will merely take the place of the notes withdrawn, no reduction of the circulation being effected by the change.

Thirdly.—Lastly, it would further contribute to diminish the danger of a run caused by political alarm, that the power of demanding bullion would naturally be confined to a much smaller number of persons than are now entitled to require specie for

the notes they hold. The only object of the convertibility of a national paper would be that of regulating the amount of the circulation, and this would be sufficiently answered without requiring the Commissioners either to give or receive bullion in exchange for paper, in small quantities ; it may be assumed, that no transaction of the kind would be allowed for less than one hundred ounces of gold. The effect of such a regulation would be to confine the power of asking for gold, to the comparatively few individuals able to command a sum little short of £400. The importance of this restriction, in times of political alarm, must be obvious, since it is well known that a panic of any kind is invariably more ungovernable the greater the number of persons it affects, and that a run upon a bank is generally found to commence with those who hold notes only to a small amount.

Such are the considerations which seem to justify the conclusion, that the issue of small notes would in itself be productive of no trifling advantage, it would also considerably facilitate the accomplishment of the proposed reform in the currency, by affording greater means of dealing, in the most liberal manner, with all vested interests. It remains to be considered what are the objections which may be urged against the use of notes of a lower denomination than £5. If these objections are to be gathered from the reasons assigned for the act of 1826, by which the issue of such notes in this part

of the kingdom was prohibited, the strongest argument against them is their supposed tendency to produce great fluctuations in the value of the currency, and as the necessary consequence of these fluctuations, such commercial distress as that which had just been so severely felt when the Act in question was passed. But even at the time it was argued that it was not to the use of small notes, as distinguished from those of higher value, that the misfortune which had occurred was really attributable, since precisely similar effects had been observed to have been produced in the years 1793 and 1797, when notes of a lower value than £10. were not allowed by law. The consternation produced by the greatness of the calamity, which had so recently fallen upon the country, prevented this argument from being attended to at the time, but it is now pretty generally admitted to have been just, and to have been borne out by what has since occurred; most of those who have carefully considered the state of our currency, are now agreed that the abolition of small notes has afforded no security whatever against the recurrence of difficulties, precisely the same in character with those of the well-known panic of 1825-6. If we have suffered less on recent occasions of the same sort, than we did in that instance, the difference is attributable not to the disuse of small notes, but to the fact, that imprudence has not since that calamity been carried quite to the same pitch as it had been immediately before its

occurrence. Even, however, if it should be admitted, that the use of small notes aggravates the evils of an ill-regulated currency, this would be no argument against them as forming part of a national Paper Currency, regulated upon sound principles; it is impossible that, as such, they could in any manner tend to produce fluctuations in the value of money.

At the time when the bill for prohibiting the issue of small notes was under discussion, another argument, a good deal relied upon by the advocates of the measure, was, that it would be the means of maintaining a larger reserve of gold in the country. As the very end in view in using a paper currency is to substitute for the precious metals a cheaper instrument of exchange, it is difficult to understand the force of this argument in the mouths of those who do not object to the use of paper money altogether, unless they merely mean, that by increasing the proportion of gold to paper, the danger of its being found impossible to maintain the convertibility of the latter would be diminished; but if this is all that is intended, the argument rests on an assumption, which, for the reasons already stated, must be considered to be altogether unfounded.

The risk of forgery is a more serious objection which may be urged against the use of small notes; indeed, it would be one which ought to be conclusive, if it could be shewn that the real reason

why the forgery of bank notes was so much more frequent some years ago than it has lately been, was, that notes of a lower denomination than £5. were at that time in circulation. But this has not yet been shewn ; nor is it likely to be so : on the contrary, there seems to be every reason for supposing that the former frequency of a crime now so comparatively rare, was much less owing to the use of small notes, than to the absurd severity of the law, and to the mistaken policy of relying for the prevention of the offence upon the terror which it was supposed this severity would inspire, instead of upon the adoption of the most obvious measures of precaution and prevention. It may be observed in support of this opinion, that there is no complaint of the frequency of forgeries of bank notes in Scotland or in Ireland, though small notes still circulate in both countries ; and although, in the former especially, there are not wanting the facilities for the crime, afforded by large towns of active commerce and crowded population.* If, therefore, upon other grounds, the use of small notes should be considered expedient, it can hardly be necessary that it should be abandoned from the danger of forgery ; particularly as regulations might easily be adopted, which would throw great difficulties in the way of those who should attempt to commit the crime, and render it highly improbable that they could escape detection.

* See evidence of Mr. Blair, Report of 1841, Question 1710.

This general statement of a proposed change in our monetary system, and of the reasons upon which it is founded, will be rendered more intelligible, and a more complete and connected view of the whole plan will be afforded, by the following short heads of a bill, by which it might be carried into effect.

- I. Commissioners to be appointed for the management of the national paper currency, not removable, except upon a joint address to the Crown from the two Houses of Parliament.
- II. The issue of notes, payable to the bearer on demand, by the Bank of England, or by any other bank, to be prohibited.
- III. The Commissioners to be authorized to issue notes, constituting a national currency. Such notes to be the only legal tender in payment of all sums exceeding forty shillings.
- IV. The Bank of England, and all other existing banks, to be required to call in and cancel all their notes now in circulation; for the purpose of enabling them to do so, the Commissioners to advance them in national paper sums equal to their average circulation of the two preceding years; the national notes so advanced to them to be only issued as their own should be withdrawn.
- V. The sum thus advanced to the Bank of England to be considered—1st, as a repayment of the eleven millions now lent by that body to the public; 2nd, as payment for the bullion now

held by the Bank, which should be made over to the Commissioners ; 3rd, the surplus (if any) as a loan from the public at $2\frac{1}{2}$ per cent. per annum.

VI. The advances to all * other banks to be considered as loans from the public, bearing interest at $2\frac{1}{2}$ per cent., for which security should be required.

VII. The Commissioners to divide the country into districts, (say eight for England, four for Ireland, and three for Scotland,) for each of which there should be distinct notes, like those of the branch banks of England ; these district notes, however, to be good in all parts of the country.

VIII. In each district the Commissioners to establish a subordinate office, for the examination of notes issued in that district, and also for the purpose of issuing notes of that district in exchange for those of other districts, and for sovereigns.

IX. All revenue officers and others receiving money on account of the public, and all bankers having advances from the Commissioners, to be required to send to the office of the district in which they reside, for the purpose of being exchanged, all sovereigns,

* Except the Bank of Ireland, with which a different arrangement, upon the same principle with that with the Bank of England, would be required.

all notes of existing banks, all national notes of other districts, or notes of their own district not stamped as having been examined within the previous six months, which should come into their hands.

- X. The district offices to be furnished with a reserve of notes for the purpose of effecting such exchanges. Notes of existing banks thus sent to any of the district offices to be presented for payment, and then cancelled; notes of the district, unless worn out or of old dates, to be examined, and if found genuine to receive a stamp, shewing the date of the examination, and to be placed in the reserve for re-issue; notes not intended to be re-issued, notes of other districts, and sovereigns, to be transmitted to Commissioners in London.
- XI. Commissioners to cause sovereigns transmitted to them to be melted into ingots, and to be sold; such a proportion, however, to be retained as should be sufficient, with the bullion received from the bank, to constitute a reserve of bullion to the value of £10,000,000.
- XII. The Commissioners, out of the money thus received, to make up the advance from the public to the Bank of England to the sum of £10,000,000; provided that in consideration of this advance, which should bear interest only at the rate of $2\frac{1}{2}$ per cent., the Bank should undertake the payment of deficiency

bills to the same extent, and on the same terms as at present.

XIII. Commissioners to invest in the funds the surplus of money received from the sale of melted sovereigns; also any repayments of capital received from banks. The interest arising from loans to banks, and from stock held by the Commissioners, to be applied by them in defraying the expenses of their office, and of supplying the notes issued by them; any surplus to be paid over to the Commissioners for the reduction of the National Debt.

XIV. The Commissioners to be bound to deliver at their office in London national paper in exchange for bullion, or bullion in exchange for paper, to all applicants; provided that not less than 100 ounces of gold should be offered or demanded; and that for every 100 ounces of gold received or delivered, a fee of £1. should be paid; the amount of such fees to be carried to the account of the general receipts of the Commissioners, and applied as before stated.

XV. The reserve of bullion in the hands of the Commissioners to be £10,000,000. In order to keep it at this amount, in case of its being reduced too low, the Commissioners to supply the deficiency by the sale of stock and purchase of bullion; in the contrary case of bullion accumulating in their hands, the Com-

missioners to dispose of the surplus to the best bidder, receiving payment for it in stock ; provided, however, that bullion should not be thus either purchased or disposed of unless the deficiency or excess to be thus met should amount to £2,000,000. Between the limits of £12,000,000 on one side, and £8,000,000 on the other, the reserve of bullion to be allowed to vary without interference.

XVI. The Commissioners to appoint inspecting officers to visit the district offices at uncertain times, in order to ascertain the correctness of the books, and of the reserves of notes ; to have also the power of making all necessary regulations as to the modes of transacting business, the dates at which notes should cease to be re-issued, &c.

XVII. The Commissioners to publish in the *Gazette* weekly statements of the total amount of national paper in circulation, and of the amount of notes received in exchange for bullion, or of bullion, in exchange for notes, during the previous week ; also to make an annual report to both Houses of Parliament, giving a full account of all their proceedings, and of their receipts and expenditure.

Such would be the chief provisions (many of minor importance, which would be required, have been purposely omitted) of an Act of Parliament, by which it is conceived that our currency might

be placed upon a secure and satisfactory footing ; their general design will, it is hoped, be sufficiently intelligible from what has already been said ; but upon one or two points a few words of explanation may be added.

The object of the clauses V. VIII. IX. and X., which relate to the division of the kingdom into different districts, each having its distinct notes, is that of guarding against forgery ; the proposed regulations would ensure the examination at short intervals, of all the national paper in circulation, so that the existence of any spurious notes could not fail speedily to be discovered, while obvious facilities would also be afforded for tracing to their source any forgeries which might thus be ascertained to have been committed. At the same time as the notes of any one district would be received in all, no inconvenience could be occasioned to the public by the assignment to each of these divisions of the country, of a distinct portion of the circulation.

With respect to the clauses V. and VI., and those from XI. to XV. inclusive, it will be proper to shew, somewhat more in detail, the grounds upon which these arrangements are recommended. The average amount of notes now in circulation may be taken, in round numbers, at forty millions—namely, about eighteen millions issued by the Bank of England, and about twenty-two millions by the various other Banks in the United Kingdom. The sovereigns in circulation have been estimated,

as already stated, at £30,000,000 ; but, as it is probable that for some time at least the announcement of the intended withdrawal of the gold coinage from circulation, might create a disposition to hoard it, and as it is better to err on the side of under-rating than of exaggerating the amount, it is assumed that £20,000,000 only of coin would in the first instance be received by the Commissioners in exchange for notes. The total amount of national paper to be issued would thus be £60,000,000, giving, of course, an equal sum to be invested as representing that issue. Of this £10,000,000 would be required to pay for the reserve of bullion it is proposed to maintain, this is probably a much larger reserve than would be necessary for the real security of a currency regulated as has been suggested ; but as it is far more important that the confidence of the public should be ensured, and that the pecuniary saving, from the adoption of the plan, should be carried to the utmost possible extent, it would be, upon the whole, expedient that the Commissioners should retain this large sum in bullion in their hands. Twenty-two millions more would be absorbed by the advances to the country banks, which would be deprived of the privilege of issuing their own notes ; and it has already been shewn that their receiving, in consideration of the loss of this privilege, these advances at $2\frac{1}{2}$ per cent., would be an arrangement more advantageous to them, than that which has in some cases been voluntarily

agreed to by these establishments. The Bank of England stands upon a different footing, it owes its present circulation to the monopoly created in its favour by the law, and has no claim to the continuance of the advantages it has thus enjoyed beyond the time for which it has been granted. On the other hand, it would probably be greatly for the public convenience that the Bank should continue to afford the same assistance it has hitherto done to the Government, by making advances of money when required, upon the credit of the growing revenue; and for this service it would of course be entitled to remuneration. Hence it is proposed, that £21,000,000 of the national paper should be issued to the Bank of England, namely, £11,000,000 in payment of the money now lent by that Corporation to the public, and £10,000,000 more as an advance, bearing interest at $2\frac{1}{2}$ per cent., being a permanent balance which the Government should leave with the Bank in consideration of the assistance received from that body in carrying on the pecuniary affairs of the country. The existing arrangements under which the revenue is paid into the Bank, while it provides for the payment of the public creditor, and for the demands of the public service, charging interest for the advances which are occasionally required for that purpose, would thus continue unaltered, to the mutual advantage of both parties. To make up the £60,000,000, at which the whole amount of national paper to be

issued in the first instance, has been calculated, there would remain a sum of £7,000,000, which it is proposed to invest in the funds, in the name of the Commissioners. This investment would afford the means, in the event of the reserve of bullion being reduced below the amount at which it is intended that it should be kept, of supplying the deficiency; in this case it would be the duty of the Commissioners to convert a portion of the stock standing in their names into bullion, but it would be scarcely possible that such a contingency should arise; what would probably happen would be, that owing to the conversion of a larger amount of sovereigns into paper, than has been assumed, and to the gradual extension of the circulation with the increasing wealth and population of the country, the Commissioners would be enabled to increase the amount of stock standing in their names by having a surplus of bullion to dispose of. The account, however, in the first instance may be taken as standing thus: £60,000,000. in national paper would be issued to replace the paper of various descriptions, and the gold coins now in circulation, and would be invested as follows:

£10,000,000 in bullion.

22,000,000 lent to existing Banks of Issue.

11,000,000 repaid to the Bank of England.

10,000,000 lent to ditto.

7,000,000 in stock standing in the names of the Commissioners.

Total £60,000,000

The interest arising from the stock standing in the names of the Commissioners, and from the sums lent to the Bank of England, and to the other banks now issuing their own notes, together with the interest saved upon the sum now lent by the Bank to the public, would constitute an annual receipt of nearly £1,400,000,* applicable to the expense of maintaining the establishment of the Commissioners, and the district offices, and that of supplying the national paper currency. The cost of a national paper currency ought obviously to be very much smaller in proportion to its amount than that of the paper circulation of private bankers, or of the Bank of England under our present system; there appears therefore to be no reasonable ground for doubting that the receipts just mentioned would be fully sufficient to meet the expenses charged upon them; if they should fail to do so the deficiency would of course have to be provided for by an annual Parliamentary grant, nor would the necessity for such a grant involve the imposition of

* Namely--Interest at $2\frac{1}{2}$ per cent.	£	£
on loans to country banks of	22,000,000	= 550,000
Ditto, on loans to the Bank of England	10,000,000	= 250,000
Interest at 3 per cent. saved on loan from Bank, repaid . . .	11,000,000	= 330,000
Interest on money invested in funds by Commissioners (say in 3 per cents. at 93)	7,000,000	= 225,000
Total		£1,355,000

any new burthen upon the public, unless its amount should exceed the whole cost of the present gold coinage. It is scarcely possible to suppose that this would be the case, on the contrary, it might confidently be predicted, that even in the first instance there would be a direct pecuniary gain to the public from the adoption of the proposed measure, and that eventually this gain would become more considerable as the money lent to the present banks of issue was repaid.

It will be observed, that it is chiefly by withdrawing the present gold coinage from circulation, and by saving of expense, and of interest of capital thus produced, that the means would be afforded of effecting the change of system in a manner which, in a pecuniary point of view, would be so much for the advantage, both of the public and of individuals; but after all, this pecuniary advantage is but of secondary importance, the first and paramount object is to establish a circulating medium, not liable to injurious fluctuations of value, and this it is conceived would be effectually accomplished, though the issue of small notes, in the place of sovereigns, should form no part of the measure adopted. The omission of this part of the plan would indeed be attended with the sacrifice of a large pecuniary saving, as well as of other important advantages, which the writer of these pages can see no good reason for giving up; but by adopting the proposal, even in this shape, we should secure the

great advantage of getting rid of a paper circulation, issued under no effective responsibility and according to no certain rule, by trading corporations and private individuals; and of substituting for this circulating medium, which experience has shewn to be liable to fluctuations of value productive of great inconvenience, a national paper currency issued on behalf of the State, under regulations by which its value would be guarded from any variations which would not equally affect a purely metallic circulation, and managed by Commissioners bound to give publicity to all their proceedings, and directly responsible to Parliament for their conduct in the discharge of duties imposed upon them, and at the same time strictly defined by the law.

THE END.

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